



**United States Department of Agriculture  
Rural Development**  
Michael W. Aube ■ State Director

August 13, 2004

Dear Approved Lender:

Congressionally apportioned (Fiscal Year 2004) program level funding for Section 502 Single Family Housing Guaranteed purchase loans will soon be exhausted. It is expected that Rural Development will not be able to fund new guarantees from late August through the first few weeks of October. As part of the annual appropriations process, it is anticipated that next fiscal year's (Fiscal Year 2005) Section 502 Single Family Housing Guaranteed funding will be available in mid-October, subject to approval by Congress and the President.

As we did last fiscal year, Rural Development will implement a procedure for our lenders to continue to process, receive Agency conditional approvals, and close loans even when funding for new Section 502 guarantees is temporarily unavailable. Rural Development will continue to accept, review, and conditionally approve loan packages from lenders until Fiscal Year 2005 appropriations are received.

The following steps will apply:

- 1) Rural Development is unable to accept requests from lenders for the reservation of loan funds (for pending applications) during this timeframe.
- 2) Rural Development will continue to accept completed Section 502 Single Family Housing guaranteed loan program applications from lenders.
- 3) Rural Development will process, approve, and issue Conditional Commitments for those applications that are eligible, *subject to the availability of Congressionally appropriated funding. **Loans processed under these procedures will carry a guarantee fee of 2 percent due to an anticipated 25 basis point fee increase that may be enacted as part of the Fiscal Year 2005 appropriation. If the fee increase is not enacted, Rural Development will not collect the additional 25 basis point at the time of the issuance of the Loan Note Guarantee.***
- 4) Lenders may close these loans as scheduled.
- 5) Rural Development will "Obligate" funds for any loans processed in this manner when funds become available through Fiscal Year 2005 appropriations.

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*Committed to the future of rural communities*

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- 6) Once the loans are obligated with Fiscal Year 2005 appropriations, Rural Development will process lender Loan Note Guarantee requests as soon as the loans are verified as being closed and all conditions of the Conditional Commitment have been satisfied.
- 7) The lender assumes all loss default risk for the loan until Rural Development is able to fund it and issue the Loan Note Guarantee, and will be required to certify that the loan is not in default and there have been no adverse changes in the borrower's financial condition as of the date the guarantee is issued.

Please note that Rural Development will not be able to issue Loan Note Guarantees (the Agency's guarantee certificate) for loans approved and closed as described in the above process until funding is made available. For loans subject to this process, Rural Development will insert language on its Conditional Commitment form indicating that the guarantee for the loan is subject to the availability of Congressionally appropriated funds.

Loans in process that have a confirmed loan reservation from Rural Development from Fiscal Year 2004 appropriations will not be subject to delays in Loan Note Guarantee issuance due to lack of funding. Lenders may continue to request loan reservations for new loans for as long as Fiscal Year 2004 funds remain available.

We regret the delay in guarantee authority and any disruption to lender processing. Your support of the Section 502 Single Family Housing Guaranteed program is appreciated. If you have any questions regarding this letter, please contact the Area Office nearest you:

Presque Isle	Tel: (207) 764-4155, ext. 4
Bangor	Tel: (207) 990-3676, ext. 4
Lewiston	Tel: (207) 753-9400, ext. 1
Scarborough	Tel: (207) 883-0159, ext. 4

Sincerely,

/s/ Tracey A. MacPheters

MICHAEL W. AUBE  
State Director